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CANADA CRUSHED & CUT STONE LIMITED

ANNUAL REPORT
1966

DIRECTORS

J. C. BURD	-	-	-	-	-	-	-	-	-	Niagara Falls, Ontario
J. R. DOOLITTLE	-	-	-	-	-	-	-	-	-	Ancaster, Ontario
G. W. HEALEY	-	-	-	-	-	-	-	-	-	Toronto, Ontario
D. H. HENDERSON	-	-	-	-	-	-	-	-	-	Hamilton, Ontario
N. M. PEECH	-	-	-	-	-	-	-	-	-	Worksop, Notts, England
N. P. PITT	-	-	-	-	-	-	-	-	-	Montreal, Quebec
J. B. ROTHWELL	-	-	-	-	-	-	-	-	-	Burlington, Ontario
G. G. RYAN, O.B.E.	-	-	-	-	-	-	-	-	-	Montreal, Quebec
E. H. SANCTON, B.Eng.	-	-	-	-	-	-	-	-	-	Burlington, Ontario
W. STOCKS, M.B.E.	-	-	-	-	-	-	-	-	-	Worksop, Notts, England

OFFICERS

N. M. PEECH	-	-	-	-	-	-	-	-	-	Chairman of the Board
D. H. HENDERSON	-	-	-	-	-	-	-	-	-	President
J. R. DOOLITTLE	-	-	-	-	-	-	-	-	-	Vice-President Crushed Stone Division
D. E. STEELE	-	-	-	-	-	-	-	-	-	Secretary-Treasurer
W. A. BRUNNER	-	-	-	-	-	-	-	-	-	Assistant Secretary-Treasurer

REGISTRAR and TRANSFER AGENT

National Trust Company Limited	-	-	-	-	-	-	-	-	-	Toronto, Ontario
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AUDITORS

McDonald, Currie & Co.

CANADA CRUSHED & CUT STONE LIMITED AND SUBSIDIARIES

REPORT TO THE SHAREHOLDERS

Your Directors take pleasure in presenting the Sixteenth Annual Report of the Company together with the Consolidated Financial Statements for the year ended December 31st, 1966.

Group Activities

Although not equal to the record earnings of 1965, your Company achieved the second best year in its history, with a consolidated net profit after income taxes of \$745,272. All divisions participated in the general high level of activity.

As expected the amount of road construction in the vicinity of Queenston Quarries Limited was considerably reduced from the exceptionally good volume of the previous year.

Building stone production suffered from a serious lack of skilled labour. However, the quarry and saw mill were able to meet their commitments to the cut stone fabricators. A down trend in many areas of the construction industry has recently indicated a lessening demand for building stone, although no drastic reduction from the 1966 volume is expected.

At Dundas, sales of stone and asphalt were maintained at a comparable level with the large tonnage of the previous year.

The modernization program mentioned in last year's report was vigorously progressed during the year, and Dundas put into operation two 50 ton Euclid trucks hauling from the quarry face to the primary crusher. These machines are the largest of their kind to be used in any Ontario stone quarry, and they are proving to be most effective. A third unit will be added shortly which will complete the fleet.

A major capital expenditure to be faced in 1967 is the purchase of a new 8 cubic yard electric shovel to replace the two smaller shovels now in operation.

The Ritchie Cut Stone Company Limited operated to the capacity of its available skilled labour, which continues to be in short supply. Early in the year the land and buildings at New Toronto were sold to the Anaconda American Brass Limited on terms that your Board considered to be very favourable. Included was an agreement to lease back the buildings to Ritchie for a period of years.

Cut stone prospects for the second half of 1967 are rather uncertain, although, should plans for some known projects develop, this situation could rapidly change.

Mills Steel Products Limited and its subsidiary Drummond & Reeves Limited enjoyed a year of good sales, some four percent higher than in 1965. The new Montreal Depot, which officially opened in June was instrumental in materially improving the area sales. Mills is actively investigating the development of new product lines suitable for its sphere of operations.

National Slag Limited in which your Company holds a one-third interest had another successful year and paid a dividend on the common stock.

Further growth and diversification through suitable acquisitions continues to be management's objective. Any situation of merit that materializes is carefully investigated.

Consolidated Statements of Profit and Loss

The consolidated earnings before income taxes were \$1,444,731 compared with \$1,545,871 in 1965. Net profit after taxes was \$745,272 compared with \$805,579. Earnings for 1966 were subject to full income taxes as all prior years' losses were fully absorbed in 1965.

Balance Sheet and Consolidated Statement of Surplus

Capital expenditures for the year were \$577,988, an increase of \$216,018 over the 1965 total of \$361,970. This reflects the equipment purchased at Dundas, together with the construction of Mill's Montreal Depot. It is estimated that 1967 expenditures will show a further increase over 1966 due to the purchase of the electric shovel and third Euclid truck mentioned previously.

Depreciation and depletion charges for 1966 were \$477,202 compared with \$433,182 in 1965.

Dividends

Quarterly dividends of 30 cents per share were paid during the year for a total of \$228,000 or \$1.20 per share.

A dividend of 30 cents per share has been declared for the first quarter of 1967 payable March 15th, 1967, to shareholders on record February 17th, 1967.

Prospects

The major and crucial unknown in the business outlook for Canada in 1967 centres on the future course of capital spending.

The effect of credit restrictions and reduced availability of mortgage money is adversely affecting the construction industry. A slowing trend in certain areas became evident in the last months of 1966. However, as the winter months are normally a period of low activity for our group of companies, it is difficult at this time to assess the effect of the slowdown. Fortunately, there appears to be a fair amount of road construction in the vicinity of our quarries, and we are hopeful of securing satisfactory earnings in 1967, although greatly increased labour and material costs are bound to reduce profit margins.

Appreciation

The Board wishes to record its appreciation to all personnel for their loyal and industrious service throughout the year.

On behalf of the Board of Directors.

D. H. HENDERSON,
President.

Hamilton, Ontario,
17th February, 1967.

CANADA CRUSHED & AND SUI

(Incorporated und

CONSOLIDATED BALANCE SH

(With comparative figur

A S S E T S

	December 31	
	<u>1966</u>	<u>1965</u>
CURRENT ASSETS		
Cash	\$ 243,097	\$ 248,552
Short-term deposits and investments—at cost	2,187,836	1,664,906
(quoted market value 1966—\$2,202,494; 1965—\$1,670,713)		
Accounts receivable, less provision for doubtful accounts	1,768,786	1,643,461
Accounts receivable—affiliated companies	13,923	10,001
Inventories of crushed stone, cut and uncut building stone, building material—at the lower of cost or net realizable value	1,111,804	1,007,402
Prepaid expenses	39,273	36,216
	<u>\$ 5,364,719</u>	<u>\$ 4,610,538</u>

DEFERRED CHARGES AND OTHER ASSETS

5% Special refundable tax	\$ 38,070	—
Investment in National Slag Limited shares—at cost	12,500	\$ 12,500
Scaffold equipment—at cost, less amounts written off	261,879	254,853
	<u>\$ 312,449</u>	<u>\$ 267,353</u>

FIXED ASSETS

Land—at cost	\$ 175,017	\$ 158,903
Buildings, plant and equipment, less accumulated depreciation	1,857,533	2,066,616
Stone quarries, less accumulated depletion	625,632	645,756
	<u>\$ 2,658,182</u>	<u>\$ 2,871,275</u>
	<u>\$ 8,335,350</u>	<u>\$ 7,749,166</u>

AUDITORS' REPORT

We have examined the consolidated balance sheet of Canada Cru the consolidated statements of earnings, surplus and source and use o review of the accounting procedures and such tests of accounting circumstances.

In our opinion, the accompanying consolidated balance sheet and when read in conjunction with the notes appended thereto, present f 31, 1966, and the consolidated results of their operations for the yea ciples applied on a basis consistent with that of the preceding year.

HAMILTON, January 23, 1967.

CUT STONE LIMITED

SUBSIDIARIES

(In accordance with the laws of Ontario)

AS AT DECEMBER 31, 1966

(as at December 31, 1965)

LIABILITIES

	December 31	
	<u>1966</u>	<u>1965</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 847,726	\$ 531,927
Income and other taxes payable	245,552	467,371
	<u>\$ 1,093,278</u>	<u>\$ 999,298</u>
ACCUMULATED TAX REDUCTIONS APPLICABLE TO		
FUTURE YEARS (Note 3)	81,500	66,500
	<u>\$ 1,174,778</u>	<u>\$ 1,065,798</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized		
5,000 6% cumulative redeemable (at \$105) sinking fund		
shares of a par value of \$100 each.		
200,000 Common shares without nominal or par value.		
Issued and fully paid		
190,000 Common shares	\$ 95,000	\$ 95,000
EXCESS OF APPRAISED VALUE OF FIXED ASSETS		
OVER DEPRECIATED COST (Note 1)	2,205,265	2,390,418
REALIZED APPRAISAL SURPLUS	1,016,081	760,378
RETAINED EARNINGS	3,844,226	3,437,572
	<u>\$ 7,160,572</u>	<u>\$ 6,683,368</u>
	<u>\$ 8,335,350</u>	<u>\$ 7,749,166</u>

APPROVED ON BEHALF OF THE BOARD,

D. H. HENDERSON, *Director*

GERALD G. RYAN, *Director*

THE SHAREHOLDERS

& Cut Stone Limited and subsidiaries as at December 31, 1966, and
 ds for the year ended on that date. Our examination included a general
 ds and other supporting evidence as we considered necessary in the

olidated statements of earnings, surplus and source and use of funds,
 the consolidated financial position of the companies as at December
 ed on that date, in accordance with generally accepted accounting prin-

McDONALD, CURRIE & CO.
 CHARTERED ACCOUNTANTS.

CONSOLIDATED STATEMENT OF SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1966

(With comparative figures for the year ended December 31, 1965)

	December 31	
	1966	1965
<hr/>		
EXCESS OF APPRAISED VALUE OF FIXED ASSETS OVER DEPRECIATED COST		
Balance—Beginning of year	\$ 2,390,418	\$ 2,390,418
Reduction on sale and retirement of buildings and plant during the year	185,153	—
Balance—End of year	<u>\$ 2,205,265</u>	<u>\$ 2,390,418</u>
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REALIZED APPRAISAL SURPLUS		
Balance—Beginning of year	\$ 760,378	\$ 760,378
Gain on the sale of land, buildings and equipment	\$ 267,803	—
Less: Income taxes applicable thereto	12,100	—
	<u>\$ 255,703</u>	<u>—</u>
Balance—End of year	<u>\$ 1,016,081</u>	<u>\$ 760,378</u>
<hr/>		
RETAINED EARNINGS		
Balance—Beginning of year	\$ 3,437,572	\$ 2,982,389
Net profit for the year	745,272	805,579
Adjustment of prior year's taxes	16,193	—
Settlement of insurance claim re wind damage in 1964 less taxes thereon	—	14,923
Increase in depletion applicable to 1964	—	(6,940)
	<u>\$ 4,199,037</u>	<u>\$ 3,795,951</u>
Transfer to accumulated depreciation being amortization of revaluation of fixed assets for the year	\$ 126,811	\$ 158,879
Dividends—Common	228,000	199,500
	<u>\$ 354,811</u>	<u>\$ 358,379</u>
Balance—End of year	<u>\$ 3,844,226</u>	<u>\$ 3,437,572</u>

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1966

(With comparative figures for the year ended December 31, 1965)

	December 31	
	1966	1965
Profit from operations before the following charges	\$ 1,766,470	\$ 1,873,843
Depreciation provision (Notes 1 and 2)	\$ 457,079	\$ 406,139
Depletion provision	20,123	27,043
Directors' fees	8,560	8,630
	\$ 485,762	\$ 441,812
Profit from operations	\$ 1,280,708	\$ 1,432,031
FINANCIAL		
Investment income	\$ 141,965	\$ 97,451
Gain on sale of investments	22,058	16,389
	\$ 164,023	\$ 113,840
Profit before taxes on income	\$ 1,444,731	\$ 1,545,871
Taxes on income (Note 3)	699,459	767,198
Reduction of taxes on application of losses of prior years	—	(26,906)
Net profit for the year	\$ 745,272	\$ 805,579

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1966

(With comparative figures for the year ended December 31, 1965)

	December 31	
	1966	1965
	<hr/>	<hr/>
SOURCE OF FUNDS		
Net profit for the year	\$ 745,272	\$ 805,579
Add: Charges not requiring cash outlay—		
Depreciation and depletion	477,202	433,182
Deferred income taxes	15,000	29,000
	<hr/>	<hr/>
	\$ 1,237,474	\$ 1,267,761
Adjustment of prior year's taxes on income	\$ 16,193	—
Proceeds on disposal of fixed assets	325,903	53,781
Proceeds on insurance claim for wind damage to Dundas stacker, less income taxes on insurance claim	—	14,923
	<hr/>	<hr/>
	\$ 1,579,570	\$ 1,336,465
	<hr/>	<hr/>
USE OF FUNDS		
Payment of 5% special refundable tax	\$ 38,070	—
Payment of dividends	228,000	\$ 199,500
Purchase of fixed assets	577,988	361,970
Net additions of scaffold equipment	75,311	13,097
	<hr/>	<hr/>
	\$ 919,369	\$ 574,567
	<hr/>	<hr/>
INCREASE IN WORKING CAPITAL	\$ 660,201	\$ 761,898
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WORKING CAPITAL—BEGINNING OF YEAR	\$ 3,611,240	\$ 2,849,342
Increase in working capital	660,201	761,898
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WORKING CAPITAL—END OF YEAR	\$ 4,271,441	\$ 3,611,240
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1966

(With comparative figures for the year ended December 31, 1965)

1. FIXED ASSETS

Buildings, plant and equipment and stone quarries and related accumulated depreciation or accumulated depletion are classified as follows:

		<u>1966</u>		<u>1965</u>
	Cost	Accumulated Depletion	Accumulated Depreciation	Net
Buildings	\$ 1,706,694		\$ 1,014,682	\$ 796,689
Plant and equipment	5,985,532		4,820,011	1,269,927
	<u>\$ 7,692,226</u>		<u>\$ 5,834,693</u>	<u>\$ 2,066,616</u>
Stone quarries	1,298,857	\$ 673,225		645,756
	<u>\$ 8,991,083</u>	<u>\$ 673,225</u>	<u>\$ 5,834,693</u>	<u>\$ 2,712,372</u>

The buildings, plant and equipment of Canada Crushed & Cut Stone Limited and its subsidiary, Queenston Quarries Limited are stated at sound values as at April 30, 1951, as appraised by Chas. Warnock & Co., Limited, with subsequent additions at cost. The buildings, plant and equipment of The Ritchie Cut Stone Company, Limited, are stated at their replacement cost after deducting depreciation at April 30, 1951, as reported by Canadian Appraisal Company Limited with subsequent additions at cost. The fixed assets of other subsidiaries are valued at cost. As a result of these appraisals fixed assets were written up by \$4,407,369. Fixed assets sold and retired to date have reduced the write-up by \$2,125,059 to \$2,282,310.

The accumulated amortization on the appraisal write-up is \$1,654,347 leaving a net book value on the write-up of \$627,963.

2. Depreciation has been provided at the maximum amount allowable for income tax purposes on cost of fixed assets, except for scaffold equipment owned by Mills Steel Products Limited. The depreciation on scaffold equipment has been provided on a basis consistent with prior years. Depreciation does not include amortization of \$126,811 for the year ended December 31, 1966, of the excess over cost of buildings, plant and equipment resulting from the revaluation based on independent appraisal as at April 30, 1951. Such amortization (which is not deductible for income tax purposes) has not been provided for in the consolidated statement of earnings but has been charged to retained earnings.

3. Income taxes payable in respect of the year have been reduced by claiming depreciation for tax purposes in excess of that recorded in the accounts. This reduction, amounting to \$15,000 for the year, is applicable to those future periods in which the amounts claimed for tax purposes will be less than the depreciation recorded in the accounts and accordingly is included (together with similar amounts arising in earlier years in the balance sheet) as Accumulated Tax Reductions Applicable to Future Years.

CANADA CRUSHED & CUT STONE LIMITED

AND SUBSIDIARIES

HEAD OFFICE:

HARBOUR ADMINISTRATION BUILDING

Hamilton, Ontario

QUARRIES:

DUNDAS, ONTARIO

QUEENSTON, ONTARIO

BUILDING MATERIALS WAREHOUSE and DOCKS:

Hamilton, Ontario

SUBSIDIARY COMPANIES:

DRUMMOND & REEVES, LIMITED

Toronto, Ontario

MILLS STEEL PRODUCTS LIMITED

Hamilton, Ontario

NATIONAL CUT STONE LIMITED

Hamilton, Ontario

QUEENSTON QUARRIES LIMITED

Niagara Falls, Ontario

THE RITCHIE CUT STONE COMPANY, LIMITED

New Toronto, Ontario